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TAGS: ECON ETRD EAID EAGR MO
SUBJECT: MOROCCO: UPDATE ON THE EFFECTS OF THE GLOBAL
ECONOMIC CRISIS

REF: A. 08 STATE 134905
¶B. 08 STATE 134459
¶C. 08 RABAT 1084
¶D. 08 RABAT 1002
¶E. 08 RABAT 0893
¶F. 08 RABAT 0853

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¶1. (SBU) SUMMARY: Morocco awaits the domestic impact of the global economic slowdown with trepidation. Government officials have tempered their earlier comments about how Morocco is sheltered from the crisis, conceding that while not exposed to "direct contagion" from "toxic assets," the country's increasingly open economy cannot escape the impact of a slowdown among its principal trading partners. "Vigilance" has thus become the watchword of the day. Officials express confidence, however, that the Morocco that must face these follow-on effects does so from a position of strength. The country's budget position is strong; international reserves are stable; and despite a chronic trade deficit, the country has enjoyed a balance of payments surplus in recent years. In addition, mother nature appears to be smiling on Morocco, and officials hold out hope that plentiful rains will bring a bumper harvest that can help cushion expected downturns in tourism, investment and transfers from Moroccans abroad. END SUMMARY.

¶2. (SBU) While little has changed in the underlying analysis of Morocco's vulnerabilities since our last reporting in late November, there has been a slight but significant movement in the tone of Moroccan official statements about the country's position. Emphasis has shifted from the country's "immunity" from the crisis to the fact that in a global economy, all will be impacted to one degree or another. While officials continue to insist that Morocco is in a strong position to confront the crisis, they also emphasize "vigilance" is the order of the day.

¶3. (SBU) Analysts continue to predict that the global economic crisis will primarily impact Morocco through its follow-on effect on the real economy. They identify Europe's economic slowdown as the key transmission channel, as that continent remains Morocco's primary trading partner and the source of most of the country's tourists and transfers. Particularly vulnerable on the manufacturing side, in most observers' eyes, are the textile and automobile industry. Already in November, auto industry officials in Tangier signaled that parts manufacturers were experiencing a 20 percent decline in production, and were resorting to temporary furloughs to address reduced demand. The textile industry has also sounded the alarm, and organized a symposium in Rabat on January 14 to outline its predicament and appeal for urgent government assistance. Without

increased government support for exports, industry leaders argue, the sector will continue to wither away in the face of declining demand and low-price competition from China.

¶4. (SBU) Also at risk is continuation of the high level of foreign direct investment that Morocco has enjoyed in recent years. Investment rose from 4.5 percent of GDP to 6.2 percent in 2007 (and totaled over USD 4.5 billion), but appears to have slipped in 2008. Much of that investment flowed into the real estate sector, which has been particularly hard hit, especially at the higher end in popular European weekend destinations such as Tangier and Marrakech. Gulf, Spanish, and other investors are putting a number of large projects on hold, and Moroccan companies are re-orienting themselves away from higher end developments toward lower-income and "social" housing, market segments to which they earlier gave a cold shoulder.

¶5. (SBU) Additional Moroccan vulnerabilities include other elements in the country's balance of payments that have enabled Morocco to enjoy a balance of payments surplus, even as it has run a significant (and growing) trade deficit. Officials expect a sharp drop in tourism receipts: weakness is already evident in tourist arrivals in recent months. Similarly, with the economic slowdown in Europe, officials are braced for a decline in transfers from Moroccans resident abroad, another significant positive entry in the balance of payments ledger. Tourism officials are meeting the week of January 12 in Marrakech to map their strategy to respond to the crisis. Some continue to express hope that proximity and affordability can moderate the downturn, and even permit Morocco to attract value-oriented tourists who prefer a destination that is lower cost than nearby European

alternatives. Given that Morocco has never been characterized by the mass low-cost tourism that exists in a number of its Mediterranean rivals, this hope appears exaggerated.

¶6. (SBU) The financial sector itself remains in a relatively good position. As last year's IMF Financial System Stability Assessment concluded, the sector is "stable, adequately capitalized, profitable, and resilient to shocks." Continued restrictions on the capital account precluded Moroccan institutions from investing in "toxic assets," while neither banks nor corporations have significant external financing. Foreign participation in the Casablanca stock exchange is limited, so analysts see little risk that a withdrawal by foreigners can severely destabilize the market. The exchange has declined in recent months, however, as investors have taken profits after a long bull run, and at least in part from the psychological impact of widespread declines elsewhere. As for the banks, liquidity is no longer as abundant as it was up until the end of 2006, but the Bank al-Maghrib (central bank) continues to inject liquidity into the market, and has adjusted its monetary reserve requirement from 16.5 percent to 15 percent to give the banks additional breathing room. Treasury officials note that this "conservative" level can be tweaked further, if necessary, to free up additional bank capital. Officials concede that real economy developments will inevitably have some impact on the banks, but note that with a lower level of non-performing assets (down three percent to 7.9 percent in 2007), the banks are better able to meet such challenges.

¶7. (SBU) Yet to be determined is the impact on Moroccan government finances. The government's budget is relatively conservative, foreseeing a diminishing increase in tax revenues and an oil price of USD 100/barrel. While that tax increase margin is usually comfortably exceeded (in 2008 tax receipts rose over 28 percent, and the average increase has been above 20 percent since 2005), few expect that performance to be matched this year. Analysts note, however, that the economic slowdown has had some positive impacts for Morocco, notably in the diminishing price pressure on oil and other primary commodities. Government subsidy spending, important to keep inflation under control and thereby assure social stability, will ease this year, and that has permitted

the government to ramp up investment spending.

¶8. (SBU) In addition to the stimulus this spending will provide, Moroccan officials also hold out hope that exceptionally abundant rains this year will permit a bumper agricultural harvest. Given that agriculture remains between 16 and 20 percent of Moroccan GDP, a significant increase there offers the potential to balance the expected weakness in exports and tourism. Finance Ministry officials also remind us that internal demand remains a principal motor of Moroccan growth, and given that much of it is for basic consumption, they anticipate that it will hold up well next year. Government officials will closely monitor aid levels, but appear confident that in the short run they will also hold steady. To date, none of Morocco's principal donors have announced plans to scale back their programs here.

¶9. (SBU) In sum, even officials who caution that the economy will slow in 2009, believe that it can be at or near 5 percent growth for the year, down from predictions of 6 percent six months ago. In predicting this level of growth, Morocco's Director of the Treasury and External Financing, Zouhair Chorfi, noted recently that if last year's run-up in commodity prices required that Morocco develop new agricultural and energy strategies, this year's troubled world economy requires that it "accelerate and enlarge its reform effort." If the crisis has this impact, which is far from certain, this would constitute the silver lining of the global downturn. In a meeting with the Consul General in Casablanca, the new head of Morocco's electricity office pointed out that he plans to accelerate reform efforts in the energy sector, and is already working to actualize natural gas and other energy projects. Even absent such reinforcement of the reform effort, however, it appears likely that agriculture will permit Morocco to experience positive growth this year. The challenges will increase significantly, however, if the recession in Europe continues into 2010.

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